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Book Review: David Lane and Martin Myant (eds.), *Varieties of Capitalism in Post-Communist Countries*, Hampshire: Palgrave Macmillan, 2007

I

The literature on varieties of capitalism, particularly the works of Hall & Soskice (2001) and Amable (2003), is beginning to influence post-communist studies. 'Varieties of Capitalism in Post-Communist Countries', edited by Lane and Myant, is a recent example. As the authors argue, 'this book addresses the question of how far they [post-communist countries] have changed into capitalist systems and, if so, what kind of capitalism they have developed, or are developing. …An initial framework is provided by the considerable literature on the 'varieties of capitalism' in advanced economies' (p. 1). However, not every author featured in this book adopts this framework to characterise post-communist economies.

This book is divided into four parts. Part I comprises two introductory chapters, written by Lane (Chapter 1 'Post-state socialism: a diversity of capitalism') and Knell and Srholec (Chapter 2 'Diverging pathways in Central and Eastern Europe'). Part II consists of four chapters that 'focus on those countries which have made a fairly successful transition' (p. 2) (Chapter 3 'Estonia and Slovenia as antipodes' by Buchen, Chapter 4 'Eastern Germany's incorporation into Federal Republic' by Schmidt, Chapter 5 'The Czech Republic: from 'Czech' capitalism to 'European' capitalism' by Myant and Chapter 6 'Poland and Ukraine: institutional structures and economic performance' by Mykhnenko). Part III comprises four chapters examining a number of 'hybrid economies' among the post-communist countries. Here, a 'hybrid economy' is an economy with more than one form of coordination. The four chapters analysing the hybrid economies are 'Russian political capitalism and its environment' by Hanson and Teague (Chapter 7), 'Kazakhstan: a state-led liberalised market economy?' by Charman (Chapter 8), 'Georgia: capitalism as organised chaos' by Christophe (Chapter 9) and 'The Western Balkans' by Bartlett (Chapter 10). Lastly, the two chapters in Part IV—'Belarus: heading towards state capitalism?' by Korosteleva (Chapter 11) and 'China's transformation towards capitalism' by Wilson—analyse 'statist' societies in which the 'significant institutional structures of state socialism continue' (p. 2). However, statist economies are also operating within a market framework.

Although I found all the chapters interesting and useful, I limit this review to summaries of and comments on six chapters (Chapters 1, 2, 3, 5, 7 and 12), which are related to my research background.

II

In Chapter 1, Lane argues that the framework of varieties of capitalism that addressed advanced capitalism, such as Hall and Soskice (2001) and Amable (2003), does not capture the dynamics of economic systems of the post-communist countries undergoing a transformation to capitalism. The study of the economies of the post-communist countries must grasp the extent to which 'modern capitalism', as described by Marx, Weber and Schumpeter, has been constructed. According to Lane, 'we need to consider: the extent of private ownership of assets; the presence of a free market and price liberalization; the accumulation of capital; exposure to, and participation in, the global economy; mechanisms for the coordination of capitalist firms; *levels* of income redistribution and inequality' in every post-communist country (p. 21). After showing empirical evidence, Lane argues that all but a few of these countries have formed a market system based on private ownership, although they are all characterised by a low level of internally sourced investment and capital accumulation.

Lane divides post-communist countries into three groups. The first group has already developed the preconditions for modern capitalism. These countries include the present EU members (Slovenia, Czech Republic, Poland, Hungary, Slovakia, Estonia, Lithuania, Latvia, Romania and Bulgaria) and Croatia. Among them, Slovenia, the 'Visegrád four' (Poland, Hungary, Czech Republic and Slovakia) and Estonia are closest to the continental European type of capitalism. Lane characterises the second group as 'a hybrid state/market uncoordinated capitalism' that exists in Russia, Ukraine, Kazakhstan, Georgia and Moldova. Although these countries have pursued privatisation and market monetary exchange, in Lane's view, they lack the political, societal and psychological preconditions necessary to support modern capitalism. Further, he suggests that '[s]tate-led capitalism might ensure accumulation. In countries with natural resources, the state would channel economic rents earned from export-oriented industries to support the modernization of the economy' (p. 36). The third group, comprising Uzbekistan, Belarus and Turkmenistan, has not yet made the breakthrough to capitalism since they have relatively low levels of private ownership. According to Lane, they remain statist economies; however, these countries may also be moving towards a form of state capitalism.

Lane adequately characterises varieties of post-communist economies and estimates to what extent each of them has met the preconditions for modern capitalism. However, his description does not adequately explain the different outcomes of post-communist transformation: Why did many Central-Eastern European countries develop towards modern capitalism, whereas many post-Soviet countries did not? In addition, Lane does not refer to the system of bifurcations, namely, the different types of capitalism within the first group, which Buchen discusses in this volume (see below).

Adopting the varieties of capitalism (VoC) approach, Knell and Srholec (Chapter 2) examine three areas of institutional development in the post-communist countries along with other major industrialised countries: social cohesion, labour market regulation and business regulation. According to the authors, empirical evidence indicates that social cohesion is strongly related to the level of development and most advanced countries maintain relatively high levels of equality, income tax and public spending, except for outliers such as the United States, Ireland, Switzerland and Canada, which maintain a liberal welfare system. The account of social cohesion is limited in most of the post-communist countries, although Belarus, Bosnia and Herzegovina, Croatia and Czech Republic maintain a relatively high level of state intervention with respect to welfare. Knell and Srholec note that '[o]ne reason why most of the post-socialist countries appear on the liberal end of the spectrum is that they chose a liberal path of transition to a market economy' (p. 45). Many of the post-communist countries have liberalised their labour markets, though they maintain relatively high levels of employment protection. With regard to business regulation, a majority of the advanced countries maintain a relatively high degree of flexibility as compared to the post-communist countries that instead have chosen to maintain a strong state bureaucracy even in the post-central planning period. The exceptions to this tendency are Russia, Lithuania, Hungary and Estonia. Knell and Srhole emphasise that the stock market has a strong influence in the Russian economy.

Knell and Srhole conclude that Belarus, Ukraine, Slovenia and Croatia are prime examples of coordinated market economies (CMEs), whereas Russia, Estonia and Armenia are prime examples of liberal market economies (LMEs) (p. 50). According to the authors, one of the reasons for this diversity is that 'the institutional arrangements in these economies varied historically, creating path-dependence in the transformation process' (p. 55).

Bohle and Greskovits (2007) emphasise state capacity and choice as determinant elements for varieties of post-communist capitalism (see below). My belief is that not only historical legacy (path dependency) but also the capacity and choice of the state have played major roles. For instance, Belarus' economy continues to remain 'coordinated' (by bureaucracy) due to the inadequate state capacity for implementing system change, whereas the Slovenian economy seems to have reached to 'coordinated market economy' due to the adequate state capacity for implementing consensus-based transformation.

Buchen (Chapter 3) examines two post-communist countries, Estonia and Slovenia, along the lines of a VoC framework in which the different forms of capitalism were determined by the following areas (subsystems): industrial relations, corporate governance, inter-firm relations, social securities and vocational training. He explains that in many areas, Slovenian post-communist capitalism resembles the CMEs of Germany and Austria. Slovenian capitalism has corporatist-like labour relations with a large degree of wage-bargaining coverage and codetermination. In addition, there is strong unemployment and employment protection.

Further, the vocational training system is capable of providing firm-specific and industry-specific skills. Buchen argues that in Slovenia, although a committed cooperation between firms that characterises the CMEs has not yet been established, the institutional infrastructure that enables cooperation is provided by the strong presence of chambers and business associations.

In contrast, Buchen describes Estonian post-communist capitalism as similar to LMEs existing in Anglo-Saxon countries. In Buchen's view, the Estonian industrial relations are characterised by dominant firm-level bargaining and a poorly organised workforce. Although employment protection is still strong, there is evidence that it is likely to be weakened. The vocational training system has been reshaped to cater to the general educational needs of the workforce. Further, Buchen argues that in Estonia, there have been no significant attempts to extend cooperation beyond the market, which is neither necessary nor possible in LMEs.

Buchen points out that corporate governance in Slovenia and Estonia differs from that found in typical CMEs and LMEs, respectively. Slovenia lacks a banking system capable of providing patient capital, a hallmark of advanced CMEs. On the other hand, the Estonian system cannot be characterised as a shareholder model, as is usually the case with LMEs.

Buchen appropriately titles his chapter 'Estonia and Slovenia as Antipodes'. However, what he does not completely address are the reasons behind the different outcomes of transformations in these countries. I agree with Bohle and Greskovits' explanation that the ex-self-management system has influenced the creation of corporatist capitalism in Slovenia, whereas a strong desire to maintain sovereignty has made the Estonian government adopt 'pure' neo-liberal policies in order to discontinue past practices (Bohle and Greskovits, 2007).

Tracing the transformation process in the Czech Republic, Myant (Chapter 5) explains the distinct first and second stages of transformation in this country. He argues that the Czech economy in the first stage of transformation (1992–1997), led by the rhetorically neoliberal Klaus government, can be defined as 'Czech' capitalism, because in that period the government attempted to create capitalism based on large Czech-owned companies through voucher privatisation. Myant explains that although rapid privatisation gave the Czech Republic excellent international standing, 'Czech' capitalism did not create 'the basis for Schumpeter's vision… of entrepreneurs who could develop productive forces with new products, new methods of production or opening up new markets. It rather created individuals who could find means to concentrate into their own hands the wealth that had been created under a previous economic system' (p. 105). Thus, the failure of 'Czech' capitalism resulted in economic difficulties in terms of budget and current deficits that led to a decline in international confidence, the sudden withdrawal of short-term credits, followed by a financial and economic crisis.

In Myant's terminology, during its second stage of transformation, the Czech economy, which was led by a Social Democrat dominated government (1998–2006), is defined as 'European' capitalism. Although 'European' capitalism is used with several implied meanings, here, it primarily means the capitalism of the Czech Republic 'after 1998 when the central government aim was EU accession and the dominant change in the business sphere was foreign ownership, often by European companies or by others targeting the European market' (p. 122). The EU accession ('European' capitalism) had an impact on the Czech Republic in various ways. For instance, the stance of the Social Democrat dominated government supporting employee protection and trade unions rights had been in line with one of the approaches common in the European social model. On the other hand, the desire of the Social Democrats and the society to maintain social spending had been constrained by the preparations for joining the European Monetary Union. Myant states that 'the European element relates as much to the areas of conflict, which match the conflicts over labour and social policies throughout the EU' (p. 122). Further, in Myant's view, elements belonging within different ideal types (LME and CME) could coexist in the Czech Republic.

The appearance of 'European' capitalism as defined by Myant seems common to the Central European countries. Chavance and Magnin (2006) point out that not only the Czech Republic but also Poland and Hungary accelerated privatisation through the sale to foreign capital in the second half of the 1990s. Bohle and Greskovits (2007) argue that while Hungary took the lead in supporting foreign takeovers at the beginning of the transformation, the Czech Republic and Poland increasingly built their institutions and strategies around the priority of attracting FDI after failing to create 'national capitalism'. A further issue to consider is the social and political sustainability of 'European' capitalism in Central Europe. As discussed in my paper (Horibayashi, 2006), although the EU currently seeks social objectives (*Social Europe*), it does so in a manner that causes social policy to be subordinate to the objectives of competitiveness (*Economic Europe*). On the other hand, Central European societies desire high social standards and quality of life. It seems that recent political instabilities in Central Europe originated at least partly from people's dissatisfaction with the social outcome of EU accession ('European' capitalism).

In line with Lane's view, Hanson and Teague (chapter 7) describe that 'the Varieties of Capitalism approach is not helpful in understanding systemic developments in Russia' and that 'Russia can be more easily understood as an example of Weberian political capitalism' (p. 149) in which 'profits are, in part at least, a prerogative of political administration' (p. 152). They describe the relation between state and big business in Russia after the collapse of communism in the USSR. With voucher privatisation (1992–1994) and 'cash' privatisation (mostly 1994–1997), the Russian private business sector expanded quickly and '[t]he late 1990s seem, in retrospect, to be the high point of economic, social and political influence for the new Russian tycoons [i.e., oligarchs]' (p. 153). However, from 2003 to 2005, the Russian authorities attacked the privately owned Yukos oil company and by late 2005, the main Yukos production company was in state hands. Thus, the Russian state appears to be intent on asserting control over strategic industries such as energy (i.e., oil and natural gas).

According to Hanson and Teague, any actions by the powerful state to dent business confidence will impose costs on Russia that is now connected to international markets. Therefore, consideration of these costs may limit the state's capacity to bully businesses (due to feedback from international markets). However, according to Hanson and Teague, '[w]hether such consideration will prevail in the long run is still to be seen' (p. 162).

Next, with respect to whether the Russian economy will diversify away from its dependence on the natural-resource sector, Hanson and Teague state that 'dependence, direct and indirect, on the natural-resource sector is unlikely to be greatly reduced over the next few years' (p. 161). Nevertheless, they add that there are rapidly growing firms in the retailing and services sector in Russia. Lastly, Hanson and Teague argue that the approach of Hall and Soskice does not fit Russia because some elements that are common to advanced capitalist societies, whether LMEs or CMEs, are not present in Russia. They add that the judiciary is not independent of the executive in Russia, which 'allows state direction of economic activity to be applied in ways that are unfamiliar in established capitalist countries' (pp. 162–163).

While Lane raises the possibility of an emergence of state-led capitalism (or state capitalism) in some post-Soviet countries, according to Hanson and Teague Russia has already developed this form of capitalism through strong state intervention into big business in the natural-resources sectors between the 2003 and 2005. They argue that the current situation of strong state intervention in big businesses and the concentration of big companies in the natural-resources sectors is likely to change only slowly. The question regarding the type of capitalism that will appear in the future remains. Will the future herald an economy led by the state through formal and transparent rules or will it herald a system something hitherto unseen? Further, what will be the international feedback therein? Another topic of discussion which is of considerable interest from a comparative perspective is the difference between Russia's current state-led capitalism and China's 'socialist market economy' discussed by Wilson.

Wilson (Chapter 12) attempts to characterise the Chinese economic system that began its transformation to a market economy in 1978, by examining the following aspects: privatisation and price liberalisation, integration into the global economy, financial intermediation, income redistribution and inequality, labour conditions, industrial policy and the role of state. Wilson argues that the private sector has emerged as the most dynamic component of the Chinese economy, indicating that in Zhejiang Province (located on the southern coast), the private sector's share in the GDP reached 90% in 2003. Price liberalisation accompanied this process and in 2004, over 90% of retail prices and almost 90% of producer prices were set by the market. Having succeeded in integrating itself into the global economy, in 2003 China became the world's third largest trader, behind the United States and Germany, and was first in attracting FDI. It has also been an increasingly active foreign investor.

Wilson points out that in China, stock market capitalisation was 48.1% of the GDP, above that of Germany at 44.9%, while domestic credit provided by the banking sector was 177.9% of the GDP, above that of Germany at 150.4%. Wilson, however, argues that China's equity market and banking system are still weak links in the transformation to market practices. Stock market operations lack transparency, a consequence of which is that little information is provided about the performance of listed firms. Further, banks continue to lend state-owned firms without sufficient regard to performance indicators.

Wilson also refers to the shadow aspects of the current China. Although poverty has declined, income inequality has risen, a consequence of which is that the Gini coefficient reached a high of 48 in 2005. According to a 2004 IMF report, more than 28 million workers lost their jobs and migrant rural workers were compelled to work long hours in dangerous conditions.

Wilson points out that the Chinese leadership has attempted to enact an industrial policy that creates large conglomerates (national champions) similar to Japan and South Korea. However, he predicts that China's industrial structure will evolve differently from that of Japan and Korea because the present international environment is markedly different from that encountered by Japan and Korea during their period of industrialisation. He also argues that the Chinese state plays a decisive role in the articulation and implementation of its reform agenda, in both the creation of national champions and further liberalisation.

Wilson notes that Chinese capitalism is tending towards steady liberalisation and a continuous opening up of the economy, and '[i]n this respect, the variety of capitalism developing corresponds more closely to Hall and Soskice's description of the LME' (p. 254). Harvey (2005) also assesses the Chinese transformation after 1978 from the perspective of the international spreading of neo-liberalism. However, we should take into account the persuasive view of Nakaya (2006) who emphasises that large state-owned firms play a dominant role in strategic sectors such as energy, steel, automobile, aircraft manufacturing and shipbuilding. In comparison with Russian state capitalism, China seems to have stronger and more capable state. However, further comparative study on Russia and China will contribute to an understanding of the difference between their economic systems.

III

This book is especially valuable since it attempts to place the studies on post-communist economies into general theories, whether by Marx, Weber, Schumpeter or recent streams of comparative economics. Future investigations into comparative post-communist capitalist economies can rest on this book's excellent foundations.

Lastly, I would like to present my own view with respect to the developing study of comparative capitalisms. Here, I will limit myself to just two points.

First, when we attempt to define some ideal types of economic system, we should not underestimate the economic role of the state. Bohle and Greskovits describe the situations as follows:

'VoC authors usually assume the prior existence and hence explanatory power of established and consolidated institutions for firm behaviour and adaptation to the challenges of the global economy. In our view, this assumption fails to hold in post-socialist regimes. Their current institutions have emerged only recently, have been built on and with the ruins of communism... Arguably, their impact on firm behaviour should thus be weaker than assumed in VoC literature. Indeed, state actors and firms have been influential in shaping institutions... This also implies that any meaningful conceptualization of institutional configurations must include propositions about the dynamic impact of the state as well as the political system' (Bohle and Greskovits, 2007, p. 92).

Indeed, state capacity and its different approach to transformation have brought about the varieties of post-communist capitalism (or economic systems, if we include the Chinese experience). Supplementing Bohle and Greskovits' view I would add that we cannot classify established capitalism without taking into account the role or forms of the state. For instance, the scale of the welfare state is notably different between the US and Sweden; this is one of the reason behind their 'different types of capitalism'.

Second, we should recognise that an institution can coexist with another without necessarily being complementarities. Hollingsworth (1997) argues that US successes in high-tech industries such as aeronautics and aerospace, computing and nuclear energy originated from a network comprising actors of the central and local governments, firms and universities that was considered lacking in an LME in the VoC theory by Hall and Soskice. In my view, it is not surprising that hybrid state/market capitalism exists in some post-Soviet countries. As Hanson and Teague argue, '[r]eally existing capitalism comes in more than two varieties' (p. 163; Amable (2003) conceptualises five ideal types among the established capitalisms).

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